

**DEPARTMENT OF ADMINISTRATION
OFFICE OF LIBRARY AND INFORMATION SERVICES
PUBLIC LIBRARY CONSTRUCTION
REIMBURSEMENT PROGRAM
PERFORMANCE AUDIT
MAY 2002**

**DEPARTMENT OF ADMINISTRATION
BUREAU OF AUDITS
ONE CAPITOL HILL
PROVIDENCE, RI 02908-5889**



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Department of Administration
BUREAU OF AUDITS
One Capitol Hill
Providence, R.I. 02908-5889
TEL #: (401) 222-2768
FAX #: (401) 222-3973

DEPARTMENT OF ADMINISTRATION
OFFICE OF LIBRARY AND INFORMATION SERVICES
PUBLIC LIBRARY CONSTRUCTION REIMBURSEMENT PROGRAM
PERFORMANCE AUDIT
MAY 2002

EXECUTIVE SUMMARY

The Office of Library and Information Services should either obtain an independent audit of public library construction projects upon their completion or strengthen its internal examination of projects prior to preparing and approving aid schedules.

DEPARTMENT OF ADMINISTRATION
OFFICE OF LIBRARY AND INFORMATION SERVICES
PUBLIC LIBRARY CONSTRUCTION REIMBURSEMENT PROGRAM
PERFORMANCE AUDIT
MAY 2002

TABLE OF CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY	i
LETTER OF TRANSMITTAL	1
INTRODUCTION:	
Objectives, Scope, and Methodology	2
Background	2
FINDING AND RECOMMENDATIONS:	
Financial Project Requirements	4
MANAGEMENT'S RESPONSE TO FINDINGS AND RECOMMENDATIONS	6



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Department of Administration
BUREAU OF AUDITS
One Capitol Hill
Providence, R.I. 02908-5889
TEL #: (401) 222-2768
FAX #: (401) 222-3973

May 28, 2002

Robert L. Carl, Jr., Ph.D., Director
Department of Administration
One Capitol Hill
Providence, RI 02908

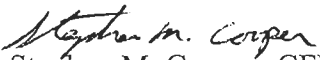
Dear Dr. Carl:

We have completed our performance audit of the Department of Administration, Office of Library and Information Services, Public Library Construction Reimbursement Program. Our audit was conducted in accordance with Sections 35-7-3 and 35-7-4 of the Rhode Island General Laws.

The finding and recommendations included herein have been discussed with management and we have considered their comments in the preparation of our report. Management's response to our recommendations is included in this report.

In accordance with Section 35-7-4 of the General Laws, we will review the status of the Office of Library and Information Services' corrective action plan within 6 months from the date of the issue of this report.

Sincerely,


Stephen M. Cooper, CFE, CGFM
Chief, Bureau of Audits

SMC:pp

pc: Howard Boksenbaum, Acting Chief Information Officer, OLIS

DEPARTMENT OF ADMINISTRATION
OFFICE OF LIBRARY AND INFORMATION SERVICES
PUBLIC LIBRARY CONSTRUCTION REIMBURSEMENT PROGRAM
PERFORMANCE AUDIT
MAY 2002

INTRODUCTION

Objectives, Scope, and Methodology

We have conducted a performance audit of the Office of Library and Information Services (OLIS), Public Library Construction Reimbursement Program for the period July 1, 2000 to February 28, 2002. Our objectives were to evaluate the adequacy and effectiveness of managerial controls, the economy of resources, and compliance with significant laws and regulations applicable to the program. Our audit was made in accordance with *The Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors.

To accomplish our objectives, we obtained an understanding of the procedures for applications as well as program and financial requirements to ascertain whether the results were consistent with the goals and objectives of the program and were carried out as planned. We also reviewed the reliability and integrity of financial and operating information. We interviewed responsible personnel and performed tests of the accounting records and auditing procedures as we considered necessary in the circumstances.

The finding and recommendations included herein have been discussed with management, and we have considered their comments in the preparation of our report.

Background

This grant-in-aid program was established under provisions of RIGL 29-6-6 for the construction and capital improvement of any free public library as the director of state library services may determine is necessary and desirable to provide better free library services to the public. The law provides for reimbursement funding for approved library construction projects. Reimbursement will begin in the state fiscal year following completion of the project and its acceptance by OLIS as completed and audited.

Since the Governor reinstated the program of state aid for public library construction and capital improvements through Executive Order 98-4, new rules and regulations for the program were promulgated. Currently, seven library construction projects have either been completed or are in the process of being completed, and seven project applications are pending.

For the fiscal year ending June 30, 2002, OLIS will process the following payments under the public library construction reimbursement program:

LIBRARY	PAYMENT
Cranston Public Library - Central	\$ 52,250
Cranston Public Library - Auburn	35,588
Cranston Public Library - William Hall	79,912
Cumberland Public Library	185,159
East Providence Public Library - Weaver	80,559
Jamestown Philomenian Library	57,979
Newport Public Library	299,309
North Kingstown Free Library	48,227
North Providence Public Library	69,865
Pawtucket Public Library	65,860
Portsmouth Free Public Library	64,659
Providence Public Library - Central	303,458
Scituate: Hope Library	29,404
Smithfield: Greenville Public Library	76,573
So. Kingstown Public Library - Peace Dale	44,372
So. Kingstown Public Library – Kingston Free	13,240
Warwick Public Library – Central	196,349
West Warwick Public Library	115,879
Westerly Public Library	242,457
TOTAL	\$ 2,061,099

DEPARTMENT OF ADMINISTRATION
OFFICE OF LIBRARY AND INFORMATION SERVICES
PUBLIC LIBRARY CONSTRUCTION REIMBURSEMENT PROGRAM
PERFORMANCE AUDIT
MAY 2002

FINDING AND RECOMMENDATIONS

Financial Project Requirements

The "Regulations for Public Construction/Renovation Reimbursement Funding" include Project Requirements related to financial reporting and maintenance of records. Section 3.10 states that "At the completion of the project the library shall submit an independent audit to the Office of Library and Information Services, in accordance with their instructions." Also, Sections 3.11 and 3.12 refer to the library retaining financial records until "no longer needed for program administrative review" and that Office of Library and Information Services (OLIS) (through an authorized representative) has "access to and the right to examine all records, books, papers or documents related to the grant."

OLIS does not require that an independent audit be submitted but instead conducts a limited examination of the construction costs through review of cancelled checks, bank statements and bills and then prepares the aid schedule. There are no written examination procedures and our review of the work performed disclosed that there is no documentation to indicate that several important areas are being looked at as part of the review. These areas include other revenues related to the project, interest offsets and documentation for debt service schedules.

If OLIS decides to continue to examine the library projects internally instead of obtaining an independent audit, they should adopt a more structured approach and consider including the following:

Additional Financial Reporting

- Libraries should report revenue (by funding source) and cost of construction (by certain categories) as required by OLIS so that desk audits for compliance can be performed prior to their own audit examination.

Examination Procedures

- Develop written instructions or guidelines for performing the examination relative to the collection and accumulation of sufficient, reliable, and relevant information based on program objectives and requirements.
- The working papers should document procedures performed, information obtained, and conclusions reached; and there should be evidence of supervisory review.

Information to be Reviewed

Information reviewed in addition to adequate support for library-related expenditures should include:

- Other revenues, state match, offsets to interest expense from accrued interest, and premiums and profits from investments over the period of time elapsing between when the borrowed funds are made available and the date of the last installment payment of the state grant in aid.
- Documentation to support debt schedules.

Recommendations

1. The Office of Library and Information Services (OLIS) should request an independent audit at the completion of the library project in accordance with your regulations. Further, OLIS needs to promulgate the scope and purpose of the independent audits to the public libraries to ensure that the independent audits attest to financial information for funding reimbursement established under provisions of 29-6-6 of the Rhode Island General Laws.
2. If OLIS continues to examine the library projects internally instead of obtaining an independent audit as recommended above, then they should modify their regulations to reflect this process. Further, OLIS should establish internal procedures to ensure that sufficient, reliable, and relevant information is reviewed and evaluated against project requirements. These internal procedures should include, but not be limited to, the items referenced in the body of this finding.



Rhode Island Department of Administration

~~Barbara Weaver~~ / Chief Information Officer

One Capitol Hill, Providence, RI 02908

(401) 222-4444

FAX (401) 222-4260

<http://www.ori.state.ri.us>

May 28, 2002

Mr. Stephen M. Cooper
Chief
Bureau of Audits
One Capitol Hill
Providence, RI 02908

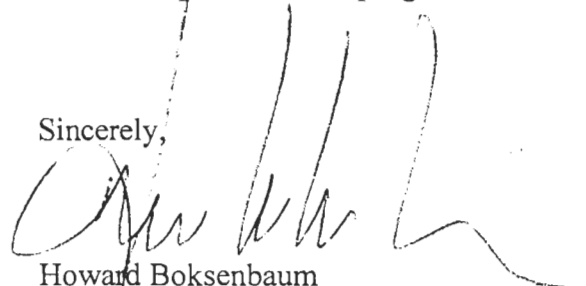
Dear Mr. Cooper:

I am pleased to enclose our response to your draft recommendations concerning the Library Construction Reimbursement Program administered by the Office of Library and Information Services. We have elected to follow your second of two alternative recommendations.

Indeed, we expect the changes we will thereby make to the program will provide needed clarification to public libraries and the cities and towns they serve, and, consequently, lead to a more effective and efficient audit component of the program.

Thank you.

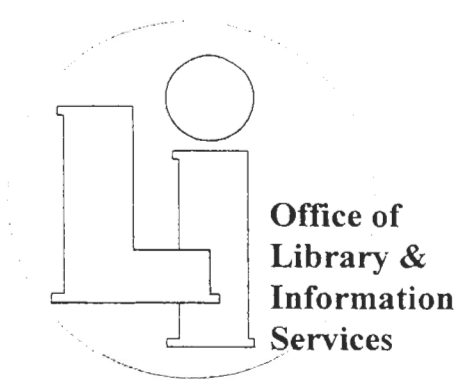
Sincerely,



Howard Boksenbaum
Chief Information Officer (Acting)

Enclosure

c—Thomas Korzen, Bureau of Audits, w/enclosure
Anne Parent, OLIS—Library Programs, w/enclosure
Karen Mellor, OLIS—Library Programs, w/enclosure



Rhode Island Department of Administration

One Capitol Hill, Providence, RI 02908

(401) 222-2726; TTY 711

FAX (401) 222-4195

<http://www.ori.state.ri.us>

Library Programs

Public Library Construction Reimbursement Program

Bureau of Audits Performance Audit

April 2002

The Executive Summary of the Bureau of Audits Report on the Public Library Construction Reimbursement Program recommends that the Office of Library and Information Services should either

- Obtain an independent audit of public library construction projects upon their completion or
- Strengthen the internal examination of projects prior to preparing and approving aid schedules

Office of Library and Information Services (OLIS) Response:

OLIS agrees with the recommendation to strengthen internal examination of projects prior to preparing and approving aid schedules.

Corrective Actions to be taken:

OLIS will:

- Amend Regulation 3.10 of the Public Library Construction Reimbursement Program to indicate that the final audit will be an internal audit. This process requires that the change in regulation be proposed to the Library Board of Rhode Island, that the Library Board of Rhode Island approve the change, and that the amended regulations are filed with the Secretary of State.
- Establish internal procedures to ensure that sufficient, reliable, and relevant information is collected, reviewed and evaluated based on program objectives and requirements.

These procedures will include:

- Provision of written guidelines detailing the final audit process, including the procedures performed and information required. These guidelines will be made available to the libraries at the beginning of the application process so that the procedure is clear from the start of the project. (Guidelines will be developed in consultation with the Central Business Office and the Bureau of Audits.)
- Examination at the final audit of all funding by funding source, including premiums and profits from investments and offsets to interest expense from accrued interest.
- Examination at the final audit of all construction costs in accordance with the categories required by OLIS to ensure compliance with program regulations.
- Requiring additional financial reporting by the libraries in the form of monthly reports of project costs, including expenditures and funds available, to facilitate compliance prior to the final audit examination.
- Requiring documentation of debt schedules and requiring that the library/municipality must notify OLIS in writing in the event of any changes in the debt schedule.
- Inclusion of working papers from the final audit in the construction project file, documenting the procedures performed, information obtained, and conclusions reached.